



Los Alamos National Laboratory Business Practices – A Progress Report

January 10, 2003

Introduction

In recent weeks, the University of California has taken a series of major steps to address management failures at Los Alamos National Laboratory (LANL). These steps are the result of recommendations made by senior University administrators charged last fall by UC President Richard C. Atkinson with making an independent review of the business practices and controls in place at LANL. This team of administrators visited Los Alamos in November and made recommendations at that time to improve LANL's business practices, and then again in December to establish the facts surrounding the lab's dismissal of two investigators. Based on those visits and recommendations, action by the University of California has been swift and decisive.

The following is a summary of what the University currently knows about laboratory business practice problems and the continuing steps we are taking to address the allegations that have been made. The top priority of the new management team installed by the University on January 6, 2003, is to identify the full scope of business practice problems at LANL, to identify other issues that require examination and to begin implementing corrective practices.

The University's management changes to date are described below, along with progress reports on 1) the alleged misuse of laboratory purchase cards; 2) allegations of criminal activities involving the laboratory purchasing system; 3) allegations involving missing laboratory property; and 4) allegations by former laboratory investigators Glenn A. Walp and Steven L. Doran and the circumstances surrounding their dismissals.

The University is bringing its full resources to bear on these problems. Senior UC officials, Lawrence Livermore National Laboratory management and external private sector expertise are all being deployed to evaluate and correct these deficiencies.

Summary

Management Changes

The University has taken major steps to address the management failures at Los Alamos. On December 23, 2002, President Atkinson accepted the resignations of Los Alamos Director John Browne and his Principal Deputy Director, Joseph Salgado, effective January 6, 2003, in order to bring in a new management team. Retired Vice Admiral George P. "Pete" Nanos was appointed as the Interim Laboratory Director. Nanos led the U.S. Navy's nuclear weapons program, has extensive management experience in the Navy, and has a doctorate in physics from Princeton

University. We will initiate a search for a permanent director as soon as we have put some of these management issues behind us.

Additionally, three other senior personnel actions have been taken with the reassignment of LANL's top two security officials, Stan Busboom and Gene Tucker, and of LANL's Audits and Assessments office director, Katherine Brittin. Other actions are expected in the weeks ahead.

President Atkinson has also initiated a number of interim measures in support of Los Alamos:

- Senior Vice President Darling has been named Interim Vice President for Laboratory Management. In addition to being one of President Atkinson's closest and longest-serving associates, Senior Vice President Darling has considerable experience in meeting complex management challenges, possesses a broad background in public affairs, is a notable problem-solver with unquestioned integrity, and as a longtime member of the university's senior management team is extremely knowledgeable about the University of California.
- A senior-level oversight board has been established that includes outside experts, members of the UC Board of Regents and senior UC officials to guide Interim Director Nanos on Laboratory management issues and to ensure prompt and full implementation of all necessary changes and corrective actions.
- All financial and business operations will report directly to Anne Broome, Vice President of Financial Management at the University of California, to ensure that appropriate corrective actions are identified and implemented in a timely and effective manner. Vice President Broome was the controller and vice president of finance for 10 years at two national S.E.C.-regulated companies, and before that was a senior manager with Price Waterhouse.
- The Laboratory Auditor will report to Patrick Reed, University of California Auditor, who will directly oversee the work of the Lab's Audit and Assessment Office to ensure that improvements in audit practices are identified and implemented in a timely and effective manner. Mr. Reed served for 22 years with KPMG, the last 12 of which were as an audit partner specializing in governmental entities and financial institutions. He will continue to keep the Office of the DOE Inspector General fully apprised of his activities.
- Management consulting expertise will be solicited from private sector firms to initiate an independent evaluation of the Lab's key financial processes to determine their business and control effectiveness as well as the appropriate organizational structure for performing these financial processes. The University issued an RFP for these services on December 20, 2002.
- The Laboratory Communications Office and Federal Governmental Relations Office will report respectively to Michael Reese, the University of California's Assistant Vice President for Strategic Communications, and Scott Sudduth, the University's Assistant Vice President for Federal Governmental Relations. Mr. Reese has extensive communications experience, including work with a national foundation, statewide elected officials, and *Newsweek*. Mr. Sudduth was formerly the Assistant Vice Chancellor of Federal Government Relations for

the University of Texas System and has worked extensively in the U.S. Senate and House of Representatives.

Allegations by former laboratory investigators Glenn A. Walp and Steven L. Doran

One of the University's highest priorities remains establishing and understanding the facts surrounding the Laboratory's dismissal of Glenn A. Walp as office leader of the Office of Security Inquiries (OSI) and Steven L. Doran as OSI security specialist. To that end, the University's special review team has interviewed 14 Laboratory employees as well as other University officials. The University's General Counsel is working with Messrs. Walp and Doran's counsel to schedule a meeting for top University administrators to interview Messrs. Walp and Doran in order to learn first-hand of their concerns about the laboratory practices and management actions regarding their investigations.

Additionally, the UC General Counsel has retained former U.S. Attorney Charles La Bella to contact the U.S. Attorney's office in Albuquerque and the FBI to learn more about any investigations related to property theft and purchase card abuse at Los Alamos and to learn the facts of the relationship between Messrs. Walp and Doran with those offices. These follow-up efforts with Messrs. Walp and Doran, along with other actions being taken to confirm that all areas of concern they have identified are the object of appropriate investigation, and are intended to lead to a determination that all possible lines of inquiry have been or are being pursued.

Inappropriate use of purchase cards:

The University of California first became aware of possible inappropriate use of purchase cards in August 2002. It immediately ordered LANL to conduct an external review. LANL contracted with former Department of Energy Inspector General John Layton, with the assistance of PricewaterhouseCoopers and former Department of Labor Inspector General Charles Masten, to conduct an independent investigation of the LANL Purchase Card program. The Layton team reviewed documentation and data covering \$120 million in transactions incurred over a 45-month period (October 1, 1998 through June 30, 2002), and conducted interviews of cardholders, requesters, approvers and managers. It also conducted a range of investigative data analyses, including data mining, random sample selection and targeted sample selection.

When the Layton team issued its report on December 12, 2002, it was clear that, even though only \$2,800 in transactions in four accounts had been referred to the DOE Inspector General for possible action, internal control weaknesses still existed in the program, leaving LANL vulnerable to fraud and abuse. Numerous cardholders failed to reconcile monthly purchase card statements and managers did not ensure that these statements were appropriately reviewed. Moreover, purchases were made in violation of LANL policies and procedures. Disputed items were neither credited by the bank nor followed-up by the cardholders in numerous instances. The report credited LANL for addressing most of the identified weaknesses in a Master Management memorandum issued on August 23, 2002, but Layton identified further corrective measures for improvement in the management and application of

the Purchase Card Program. These corrections are being implemented by LANL's new management team.

UC's auditors are also making progress on several other critical fronts: All but \$120,000 of the \$3.782 million in unreconciled transactions identified by the Layton team as of Nov. 21, 2002, had been reconciled as of Dec. 18, 2002. Transactions pending review and justifications had been reduced from \$790,000 to \$20,000, and disputed transactions had been reduced from \$317,000 to \$170,000. Additional progress will be reported after further review by our auditing and administrative officers.

On the matter of the employee who attempted to use a purchase card to buy an automobile (Ford Mustang): The facts of this incident are that on July 18, 2002, Bank of America (LANL's then purchase card provider) notified the Purchase Card Administrator that an automobile was charged to a LANL purchase card. The Administrator was further informed that the cardholder disputed the charges, which were subsequently reversed by Bank of America. The laboratory employee to whom the purchase card was issued was placed on administrative (investigative) leave. The Federal Bureau of Investigation has completed its review and the U.S. attorney has declined to prosecute. The Laboratory is pursuing follow-up action.

It is important to note that during the period in which these events occurred, LANL's purchase card system was different from those systems used by UC's ten campuses and its two other national laboratories. The laboratory has since adopted the University's purchase card system, which contains better safeguards and controls.

Finally, there has been considerable confusion surrounding a Dec. 20, 2002, CBS News segment that reported that PricewaterhouseCoopers auditors identified \$158 million in suspect charges. This is incorrect. Apparently relying on an Oct. 8 status update, CBS erred by duplicating a number of different transactions that had been tagged by the review team for a number of different reasons. By adding up these duplicate transactions and relying on outdated data, CBS came up with a figure far greater than the total universe of charges reviewed (\$120 million). Indeed, the review team itself stated clearly in the same Oct. 8 update that \$86 million in transactions were duplicates. CBS did not report this fact.

Allegations of criminal activities involving the laboratory purchasing system:

This matter is still under investigation by the Federal Bureau of Investigation. Published reports on the court documents filed in a federal investigation into alleged abuse of the Laboratory's purchase order system have shown, to date, approximately \$50,000 in potentially misappropriated funds. Laboratory officials have cooperated since being notified of the investigation, and have kept the University of California, NNSA and DOE officials informed since they were first notified of that investigation.

Allegations involving property management:

We recognize the particular importance of properly tracking property at a national nuclear laboratory and have been assured that none of the 355 computers that have been reported lost, stolen or unlocated in the last four years were associated with any classified laboratory work.

While the Department, the University and the laboratory work to account for all of the laboratory's property, inventory tracking systems seldom achieve 100 percent due to employee turnover, employee and management tracking errors, and losses, as well as theft. The management contract requires the laboratory to account for at least 99.5 percent of its inventory for it to achieve a performance rating of "outstanding."

The laboratory has met that standard in each of the last three years; in fact, it has improved its performance over that period, with unaccounted for inventory in 2002 below one tenth of one percent. Unlocated, lost and stolen items at the end of Fiscal Year 2002 were as follows:

- Unlocated: 153 items, with an acquisition value of \$484,156
- Reported lost: 81 items, with an acquisition value of \$175,679
- Reported stolen: 16 items, with an acquisition value of \$29,930

On the matter of the alleged loss of a laboratory forklift and two one-ton magnets: LANL has determined that the 33-year-old forklift was salvaged for parts but not taken off the books, one of the magnets is being used in an experiment, and the other has been located in a remote laboratory storage facility.

The University has identified an additional area in the property management process that needs improvement. While LANL controls all property items with an initial acquisition cost of \$5,000 or greater, as well as property items costing less than \$5,000 that are judged to be attractive targets for theft (such as computers, cameras and cell phones), it lacks a systematic process to ensure that controlled property items purchased via procards, or under just-in-time-contracts, are entered into property inventory. To rectify this, the University has recommended that LANL establish a process to ensure that controlled property items are promptly entered into the property inventory, regardless of the purchase method. This process will include regular reconciliation of Property Office records of controlled property with purchasing records of acquisitions of controlled property items.

Conclusion

The University of California pledges its full cooperation with the Department of Energy, the National Nuclear Security Administration, and the United States Congress during this period of evaluation about our role as stewards of Los Alamos as a world-class laboratory. Ever since the start of the Manhattan Project 60 years ago, the University and the United States government have worked in partnership to create a laboratory that attracts the best and the brightest to work on problems of the greatest importance to our nation's security. These recent problems in the business practices at the Laboratory have strengthened our resolve to maintain an outstanding reputation in the performance of all aspects of laboratory management including scientific programs, security, safety, project management and business operations.